

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement)	Rulemaking 06-04-009
the Commission's Procurement Incentive)	(Filed April 13, 2006)
Framework and to Examine the Integration)	
of Greenhouse Gas Emissions Standards)	
into Procurement Policies.)	
)	

**REPLY COMMENTS OF THE
SACRAMENTO MUNICIPAL UTILITY DISTRICT
ON THE DECEMBER 13, 2006 PROPOSED DECISION**

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Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.

I. INTRODUCTION

Pursuant to the California Public Utilities Commission (CPUC or Commission) rules of Practice and Procedure, the Sacramento Municipal Utility District (SMUD) provides these reply comments on the Proposed Decision of President Peevey and Administrative Law Judge Gottstein, *Interim Opinion on Phase I Issues: Greenhouse Gas Emissions Performance Standards* (Proposed Decision or PD), issued on December 13, 2006.

SMUD is a municipal utility operating in Sacramento and Placer counties. SMUD is not CPUC jurisdictional and not subject to the Interim Emissions Performance Standard (EPS) the CPUC will adopt. However, since the enactment of Senate Bill (SB) 1368,¹ including its language about consistency between the EPS adopted by the CPUC and the California Energy Commission's (CEC) EPS,² SMUD along with other publicly owned utilities have become involved in this proceeding.³

¹ SB 1368 adds sections 8340 and 8341 to the Public Utilities Code, which becomes effective January 1, 2007.

² Please note that SB 1368's language regarding consistency does not require that the CPUC's and the CEC's regulations be identical.

³ The CPUC began this proceeding prior to the legislature passing and the Governor signing SB 1368 creating greenhouse gas limitations for both load serving entities and publicly owned entities.

SMUD supports the reply comments of the California Municipal Utilities Association and the Northern California Power Agency filed in this proceeding on the Proposed Decision. SMUD encourages the CPUC to consider the information provided by the POUs in setting the CPUC's EPS and developing its rules for implementation.

II. THE PROPOSED DECISION'S COMPLETE BAN ON UNSPECIFIED CONTRACTS RENDERS SECTION 8341(D)(7) MEANINGLESS

The Proposed Decision does not allow any use of unspecified resources for long-term contracts for baseload generation.⁴ As noted by Pacific Gas and Electric Company (PG&E), the Proposed Decision's complete ban on all forms of unspecified contracts renders California Public Utilities Code Section 8341(d)(7) meaningless.⁵ SMUD agrees with PG&E's conclusion. If the legislature intended to ban all forms of unspecified contracts, the legislature could have stated so directly. Instead the legislature required both the CPUC and the CEC to address these types of contracts.⁶ The CPUC has failed to follow the specific direction in SB 1368 that the CPUC "address long-term purchases of electricity from unspecified sources".⁷

III. PG&E'S PROPOSAL FOR 15% FIRMED UNIT SPECIFIC AND RENEWABLE CONTRACTS DOES NOT ADDRESS INTERMITTENT OUTPUT RENEWABLE RESOURCES

SMUD recognizes PG&E's efforts to add some flexibility regarding unspecified resources into the CPUC's Proposed Decision. As stated in SMUD's opening comments, SMUD supports using system, multiple resource and unspecified resources under long-term contracts for baseload resources to serve load. Nonetheless, PG&E's proposal to allow 15% firming energy for unit specific contracts is a reasonable proposal for unit specific contracts.⁸ Allowing 15% firming power helps to integrate unit specific renewable contracts into a reliable power supply

⁴ Proposed Decision at 122.

⁵ Opening Comments of Pacific Gas and Electric Company (U 39 E) on Proposed Decision of President Peevey and ALJ Gottstein ("PG&E's Comments"), at 4, footnote 1 (Jan. 2, 2007).

⁶ Cal. Publ. Util. Code §8341(d)(7) & (e)(8).

⁷ Cal. Publ. Util. Code §8341(d)(7).

⁸ PG&E's Comments, pp. 3-7.

portfolio.⁹ Although PG&E also proposed to use the 15% firming for renewable contracts, PG&E's proposal does not address the inherent difficulties associated with limiting firming power from intermittent output resources like wind.

SMUD agrees with PG&E, "many new renewable resources cannot by themselves meet the energy profile needs of load-serving entities, without having backup access to flexible and firm resources."¹⁰ The problem with PG&E's proposal regarding intermittent resources is the proposal's limitation on the circumstances under which firming power can be provided. PG&E only allows firming power when the specific unit is unavailable due to a forced outage, scheduled maintenance, or other temporary unavailability for operational or efficiency reasons."¹¹ Unfortunately, purchasing intermittent resource power has its reliability challenges. Therefore, these intermittent resources are often firmed so that the purchasing entity and the control area operators can count on the power deliveries. For example, although forecasting for wind has improved, it has not improved to the point of specifying and maintaining the exact rate of delivery of energy output that will be provided over day ahead scheduling periods. Further, intermittent resource output at times needs to be replaced in its entirety due to unusual weather conditions. As experienced by California this past July, when the weather created large demand, wind resources were unable to provide energy. During these types of weather related high load events is not the time to send load serving entities or publicly owned utilities into the short-term market to purchase power to replace these intermittent output renewable resources. The time to purchase replacement power is when the purchasing entity enters into the contract.

Because of these constraints, load serving entities purchasing intermittent output renewable power need to be able to firm and shape the resource output so as to be able to integrate the resource with their resource portfolio and serve load with it in a reliable way. Purchasing a firming and shaping service from a power supply system is one way of mitigating the above operational constraints of intermittent resource renewable generation. Such system firming resources can themselves be evaluated on the emission output of the supplying power

⁹ Arizona Public Service found a 76.8% availability rate for unit-contingent contracts. See Comments of Barclays Capital, J. Aron & Company, Morgan Stanley Capital Group Inc. on Proposed Decision on Phase 1 Issues (Comments of Barclays et. al.), at 9 (Jan. 2, 2007).

¹⁰ PG&E's Comments at 6.

¹¹ PG&E's Comments at 5.

system as described in our opening comments. Another technique used to deal with the above intermittent resource constraints is contracting for a fixed delivery amount equal to 80% of the maximum rated output of the facility, allowing the purchasing entity to increase the probability that the wind generation resource can consistently provide the full delivery amount.

Nonetheless, a fixed delivery contract for 80% of the maximum output is usually combined with a firming and shaping service so as to meet its reliability and scheduling performance requirements.

In order to purchase the maximum amount of renewable resources and maintain reliable service to the people of California, purchasers of these resources need to be able to firm their power. SMUD feels that the best way to achieve these multiple goals while also limiting the amount of firming power purchased under these contracts is to allow contracts for renewable power to be firmed but limit the total power purchased to the output of the renewable resource and require the buyer to also purchase the renewable energy credits associated with that power.

IV. UNSPECIFIED CONTRACTS PROVIDE RELIABLE POWER

As stated in SMUD's opening comments, SMUD also supports using system, multiple resource and other contracts with unspecified resources to serve load. The comments provided by Barclays Capital, J. Aron & Company, Morgan Stanley Capital Group Inc. ("Barclays") correctly identify the reliability benefits and ultimate liability to the seller for changes in regulation of greenhouse gases for market contracts.¹² SMUD believes that proper structures can be put in place to meet the goals of SB 1368 as well as allow purchasers to take advantage of the benefits of unspecified contracts. A complete ban on these types of contracts does not provide any incentive for sellers to develop products that can include renewable components and be sold long-term into the California market. Contract terms, off-ramps and other contract structures would provide opportunities to influence the development of new products, which could provide a model for other jurisdictions.

¹² Comments of Barclays et. al., pp. 6, 7-9.

V. **SMUD SUPPORTS PG&E'S 15% STANDARD FOR UNIT SPECIFIC CONTRACTS, BELIEVES ADDITIONAL EXPANSION OF FIRING FOR RENEWABLE RESOURCES IS NEEDED, AND AGREES WITH SCE'S PROPOSED CLARIFICATION REGARDING INDEPENDENT CONTRACTS**

As described above, SMUD supports PG&E's 15% firming provision for unit specific contracts. SMUD does not believe that the limitations on when firming can be used for renewable resources sufficiently resolves the issues surrounding intermittent output resources. SMUD believes that these resources are better served by allowing contracting for firming the renewable energy resources and accounting for the firming energy pursuant to the supplying system's emission profile.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the **REPLY COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT ON THE DECEMBER 13, 2006 PROPOSED DECISION** on January 8, 2007, on all known parties to the proceeding R. 06-04-009 via e-mail to those whose e-mail address is available and by U.S. mail to those who do not have an e-mail address.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Dated this 8th day of January, 2007.

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